

Milwaukee County Employees' Retirement System (ERS)

Investment Committee Meeting

MINUTES

Call to Order:

Chairperson, Sarah Peck called the meeting to order at 2:30 pm, on 3-1-10, in Room 203-P, of the Milwaukee County Courthouse, 901 N. 9th Street, Milwaukee, WI. 53233.

Roll Call:

Board Members Present:

Jeffrey Mawicke
Linda Bedford
John Maier
Sarah Peck

Others Present

Gerry Schroeder
Mark Grady
Dale Yerkes
Brett Christenson
Ray Caprio
David Arena

One (1) handout was provided to the Board members and others in attendance:

- Commercial Real Estate Overview – Marquette Associates
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1. Topic: Asset Allocation Update

Fixed income funds will be used for Infrastructure. This will be presented to the Pension Board. ABS will receive \$90 million from S&P Futures. The K-2 Long/Short contract is still under review by legal counsel. Once completed, K-2 will receive \$90 million in total. Funding will come from a combination of the remaining S&P futures and the BNYM S&P 500 Index fund.

2. Topic: Marquette – Real Estate Education

The role of real estate in a diversified portfolio was discussed by the committee. Commercial Real Estate is divided into the U.S. and global market. Real estate represents 14% of the U.S. investment universe with \$6.4 trillion in assets. Globally, real estate has \$23.5 trillion in investment assets. . Marquette reviewed four main avenues for Real Estate exposure: Private Debt, Public Debt, Private Equity, and Public Equity. The ERS currently has exposure to public equity, however, Marquette is

recommending gaining exposure to the private market through private real estate equity by way of Core Open Ended funds.

Benefits of real estate relate to stable income, superior risk-adjusted performance, a large universe, diversification, and an inflation hedge. A 7-7.5% income goal on real estate should be the assumption. Long-term leases can be a stable source of income. Hotels are not a core property. Emphasis should be placed on industrial warehouses, office buildings and retail malls.

The NCREIF Property Index (NPI) had an average return during the first quarter in 1978 through the first quarter in 2009, of 8.8%. The NFI-ODCE (NFI) Index had an average return of 7.8% during the same period. Marquette Associates recommends that ERS use the NFI.

There are four traditional (4) property types include office, industrial, retail and multi-family apartments. Non-traditional property types include hotels, senior living, medical offices and land. The life cycle of real estate investments are:

- Forward purchase commitment
- Pre-development
- Development
- Initial leasing
- Operating/stabilization
- Repositioning

Marquette Associates suggests that ERS focus on Operating properties and the Core style with an emphasis on low leverage and high leasing rates. It has less risk and is income driven.

Cap rates were discussed as an integral part of the property and fund evaluation process. Cap rates are the expected first year income yield on an income property investment. This is defined as the ratio of net operating income (NOI) to current market value. Low cap rates means that people are over-paying.

The risks related to real estate investment can be found in:

1. General Real Estate Sector-affected by the economy & financial conditions.
2. Liquidity-commercial real estate is less liquid.
3. Leverage-can magnify investor losses.
4. Transparency-the property's financial and operational details are held by the investment manager and made available only to investors on a limited basis.
5. Diversification-properties are subject to unique local and regional factors.
6. Appraisal Methodology-highly subjective

The minimum qualifications to be considered as a manager were covered by Marquette Associates. Some of the key qualifications include:

- Open-ended
- Aggregate properties at 80% leased

- Leverage only up to 40% on a rolling three year basis
- 70% of net asset value in operating
- Broad diversification property type, location, and size
- Minimum of 40 properties
- \$500 million in net asset value

The target is for 7% of our fund, or \$130 million, to be in real estate. We could have 5-6 managers to handle these investments. Marquette Associates recommends 2 or 3 managers, with diversification and 100% in Core Investment.

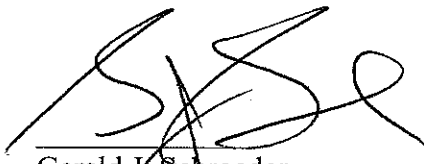
3. **Topic: Flash Report – 4th Quarter**

The Flash Report will be highlighted at the next Board meeting. Due to the size of the report, it may be prudent to cover certain areas at each Board meeting for the next few months. Marquette Associates will forward the 2009, 4th quarter Flash Report to the ERS Manager for proper distribution. The 3-17-10 Board meeting will not have the scheduled ABS presentation, to allow more time to focus on a real estate presentation by Marquette instead.

4. **Topic: Policy Guidelines - Investment**

General discussion took place relating to recommendations by Corporation Counsel. The committee liked the revision, but wanted more time for Board members to review the document, prior to presenting it to the Board for approval. Marquette will send the revised document to the ERS Manager for proper distribution.

5. **Adjournment: The Investment Committee adjourned at 4:10 PM.**



Gerald J. Schroeder
ERS Manager